TRUST CREDIT INSIGHTS

Vedanta Limited

Detailed Report

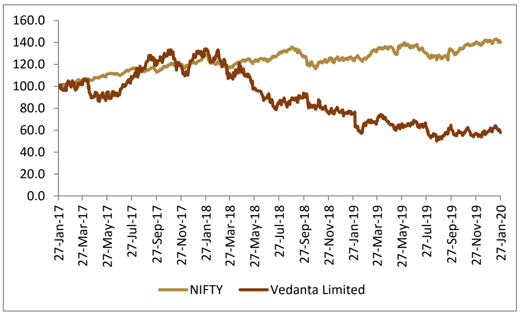
Market statistics as on January 27, 2020

Stock price (Rs.)	148.85
Shares O/S (Bn)	3.75
Market Cap (Rs. Bn)	553.3
P/E (x)	7.95
52 Week High(Rs.)	198.3
52 Week Low (Rs.)	125.5
Price/Book	0.89

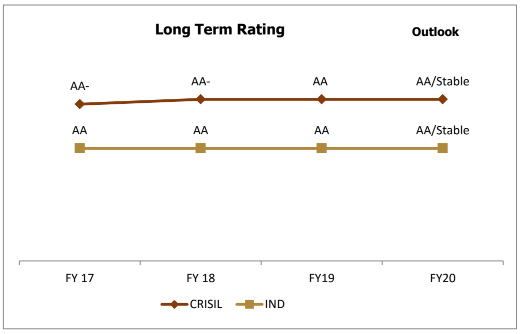
Shareholding pattern as on December 31, 2019

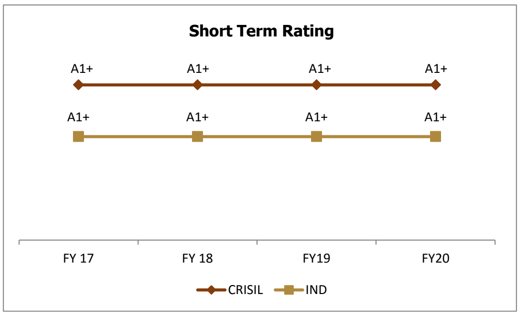
Promoter & Promoter Group	50.14%
Domestic Financial Institutions	18.62%
Qualified Foreign Investors	16.39%
Others	14.85%

Vedanta Limited vs. NIFTY



Credit Rating History





Financial Performance — Rs. Bn

Particulars	H1FY20	H1FY19	% chg
Revenue	217.4	224.3	(3.1)
EBITDA	45.0	52.8	(14.8)
PAT	27.3	19.0	43.7
Networth	824.8	853.0	(3.3)
Debt/Equity (x)	465.6	590.0	(21.1)
Total Debt	0.6	0.7	-
EBITDA (%)	25.1	27.8	-
PAT (%)	10.8	9.2	-

Source: ACE Equity; as per IND AS wherever applicable

Credit Drivers:

- Large Diversified Operations: Vedanta Limited (VL) has a diversified business profile. The revenue contribution of the various segments of the group is Zinc, Lead & Silver (26%), O&G (15%), Aluminium (32%), Copper (12%), Power (7%), Iron ore (3%) and others (6%).
- Low cost of operations help profitability: Hindustan Zinc Limited (HZL), the company in the Zinc and Lead vertical, is among the top five producers globally. The company's Cost of Production ranks amongst the ten lowest producers in the world.
- Cyclicality in the Metals as well as Oil & Gas business may affect profitability: VL's profit profile does get affected by the volatility in the Metals & Oil and Gas prices globally. Operational risk in a particular segment gets offset by the better performance in the other segments thereby having a limited impact on the company's business profile.
- Capex Plans and large dividend payout to affect leverage: The parent of VL, Vedanta Resources Limited had announced a capex plan of about USD 10 Billion over 5-7 years. It spent USD 1.5 Billion in FY18 and FY19. For FY20, the company has a planned capex of between USD 1.2-1.4 Billion.
- Liquidity Profile: The liquidity position at VL is adequate given the cash and bank balances of Rs. 83 Billion as on Sept 2019 as against Rs 73 Billion as on Sept 2018.
- Regulatory Challenges: VL is also exposed to the risk arising out of change in government or regulatory policies which can affect its various businesses.

About the Company:

The Vedanta Group, promoted by Mr Anil Agarwal is majority owned by Vedanta Resources. Vedanta Resources has business interest across various segments like Aluminum (Vedanta & BALCO), Iron Ore (Electrosteel Steels Ltd), Zinc (Hindustan Zinc Ltd), Oil & Gas (Cairn India Ltd), power and copper. Vedanta Resources owns 50.1% in Vedanta Limited. VL operates a total power generation of 9 GW out of which 5.1 GW is used for captive consumption. The balance capacity of power is sold to the grid. The company has also a subsidiary Vizag general Cargo Berth Private limited which has entered into the mechanizing and modernization of the coal berth at the outer harbor of Vishakhapatnam port.

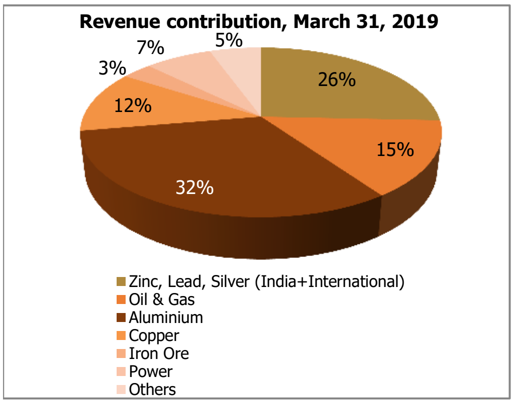
Industry Outlook:

According to the latest IMF Report, India's growth is projected to rise to 7.5% in 2020, supported by the continued recovery of investment, and robust consumption. The Indian economy remains one of the fastest growing in the world, supported by strong macroeconomic fundamentals and policy changes. India produces 95 minerals– 4 fuel-related minerals, 10 metallic minerals, 23 non-metallic minerals, 3 atomic minerals and 55 minor minerals (including building and other minerals). India holds a fair advantage in cost of production and conversion costs in steel and alumina. It's strategic location enables convenient exports to developed as well as the fast developing Asian markets. Rise in infrastructure development and automotive production driving growth in the sector.

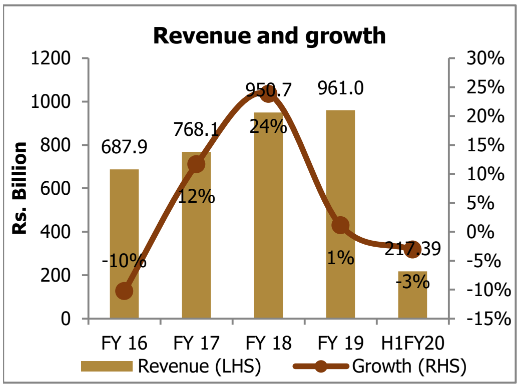
Primary zinc consumption in India has been steady for the last two years and may see a rise in consumption of 3-4% going forward. Demand for iron and steel is set to continue, given the strong growth expectations for the residential and commercial building industry. India was the fourth largest producer of aluminum in the world with a share of around 5.33 per cent in global aluminum output. India's aluminum production capacity has increased to 4.1 MMTPA, driven by investments worth Rs 1.2 lakh crore (US$ 18.54 billion). Mining Industry of India has been dominated by surface mining but is now moving towards underground mining due to technological advancement. In the Oil & Gas sector, while global demand is expected to stagnate due to the economic slowdown and mounting trade tensions, Indian demand is projected to show robust growth.

Key Credit Drivers:

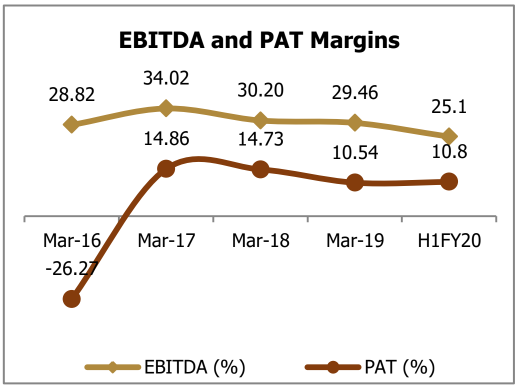
<u>Large Diversified Operations:</u> Vedanta Limited (VL) has a diversified business profile. The group has a presence in Zinc, Lead, Silver, Aluminium, Oil and Gas (O&G), Iron ore, Copper and Power sectors. VL is, in many of these business segments, amongst the largest businesses commanding a dominant position in the domestic market. The company has low operating costs in most of its businesses. This diverse profile has helped the company at times when an underformance in one particular sector gets offset by a strong performance in other business sectors. The revenue contribution of the various segments of the group is Aluminium (32%), Zinc, Lead & Silver (26%), O&G (15%), Copper (12%), Power (7%), Iron ore (3%) and others (6%). This diversification provides the company with protection against the cyclicality in the commodities business and the inherent risk associated with it.



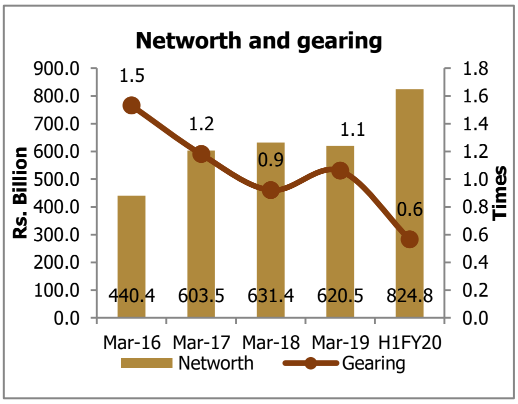
<u>Low cost of operations help profitability:</u> Hindustan Zinc Limited (HZL), the company in the Zinc and Lead vertical, is among the top five producers globally. The company's Cost of Production ranks amongst the 10 lowest producers in the world. This is primarily driven by a high level of backward integration which spans from mining of zinc to converting it into concentrates and finally smelting into refined zinc. The low cost is also attributable to HZL's access to the Rampura Agucha mine in the state of Rajasthan, which is one of the lowest cost zinc ore mine in the world. Also, the company has moved successfully from underground mining to open cast mining and higher production from the Sindesar Khurd mine has helped the company reduce cost and improve profitability. Higher entry barriers because of large capital requirements and the non-availability of zinc ore mines also helps the company to maintain its profitability. On the O&G fronts, VL's arm, Cairn India, benefits from a lower operating cost per barrel in the range of USD 6-7, which is the lowest globally. Revenue visibility from the extension and renewal of existing production sharing contracts also help in maintaining profitability in the O&G space. The company's current cost of production in the alumina business, which is currently moderate, is also expected to improve going forward owing to lower alumina cost and improved access to coal and bauxite.



<u>Cyclicality in the Metals as well as Oil & Gas business to affect profitability:</u> VL's profit profile does get affected by the volatility in the Metals & Oil and Gas prices globally. Zinc and crude prices have remained stable in the last financial year primarily due to the demand and supply mismatch. However, prices could not witness a steep rise due to the global trade worries. The company's profits took a hit in FY2016 due to a steep fall in the commodity prices. Profitability in the Oil and Gas segment was also affected due to a fall in the global crude prices some years ago. However, global crude prices have been moving in the USD 60-80 a barrel price range since the last couple of years. Since the company is diversified, this operational risk in a particular segment gets offset by the better performance in the other segments thereby having a limited impact on the company's business profile.



<u>Capex Plans and large dividend payout to affect leverage:</u> The parent of VL, Vedanta Resources Limited had announced a capex plan of about USD 10 Billion over 5-7 years. It spent USD 1.5 Billion in FY18 and FY19. For FY20, the company has a planned capex of between USD 1.2-1.4 Billion. Hence major part of the capex and the associated execution risk has also been completed. The company does however remain exposed to the residual execution risk due to regulatory approval delays and the associated cost overruns. Also, large dividend payouts to support the debt of the parent, Vedanta Resources Limited are also expected to continue. Hence there is a lot of cash outgo to shareholders as well as to regulators in the form of dividend distribution tax. This would have otherwise been ploughed back into more productive purposes. This may also lead to an increase in the overall leverage levels in the future. Total Debt to Equity was 1.07x in FY19, up from 0.92x in FY18 and dipped back to 0.6x as on Sept, 2019.



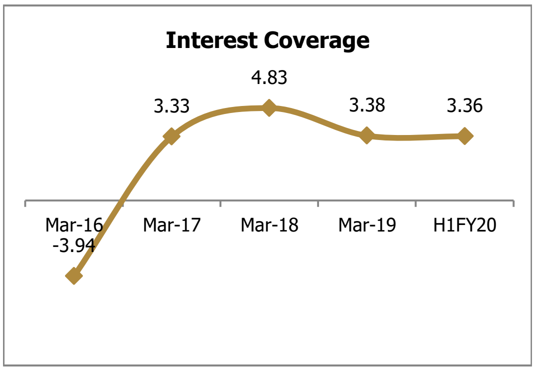
Z-score	1.41	**Distress**
Z > 2.99 - "Safe" Zones		
1.81< Z > 2.99 – "Grey" Zones		
Z < 1.81 – "Distress" Zones		

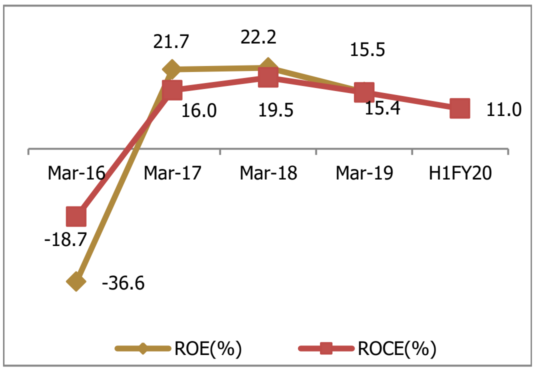
<u>Liquidity Profile:</u> The liquidity position at VL is adequate given the cash and bank balances of Rs. 83 Billion as on Sept 2019 as against Rs 73 Billion as on Sept 2018. The company also has unutilized bank credit lines. The company also benefits from the back ended repayment structure for its term debt which is around Rs. 430

billion with an average maturity of 3.2 years. Maturities in FY2020 are expected to be Rs. 80 Billion. VL had cash from operation of about Rs. 237 Billion in FY19 and is expected to generate a similar amount in FY20. This amount will be utilized for capex and dividend payments. VL parent, Vedanta Resources Limited primarily depends on the dividend received from VL to service its debt obligations.

<u>Regulatory Challenges:</u> VL is also exposed to the risk arising out of change in government or regulatory policies which can affects its various businesses. VL's alumina refinery in Lanjigarh was put on hold in 2010 due to lack of Environmental clearances. The project received final clearances only in Q4FY16. In March 2013, the Tamil Nadu Pollution Control Board ordered the closure of its Tuticorin copper smelter plant due to environmental concerns. Though it was restarted after a couple of months the company did suffer production losses. Currently, the plant is under shutdown and the company has lost close to USD 200 Million in profits. The company also faces risks in its iron ore business which is evident from the suspension of iron ore mining operations in the past.

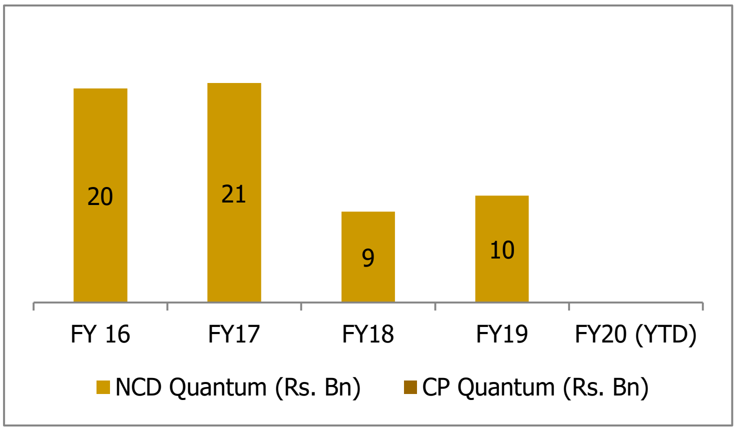
<u>Growth oriented professional management:</u> VL has a professionally managed board to manage the affairs of the various businesses. The management team has shown its ability to successfully commission and run projects across businesses. The company has successfully increased its capacity through organic capex as well as through the acquisition route. This has resulted in increased debt. The management has also been able to successfully reduce the refinancing risk by managing the liabilities in a much better manner. Going forward, the company is expected to undertake further expansion as would be suitably guided by the board.





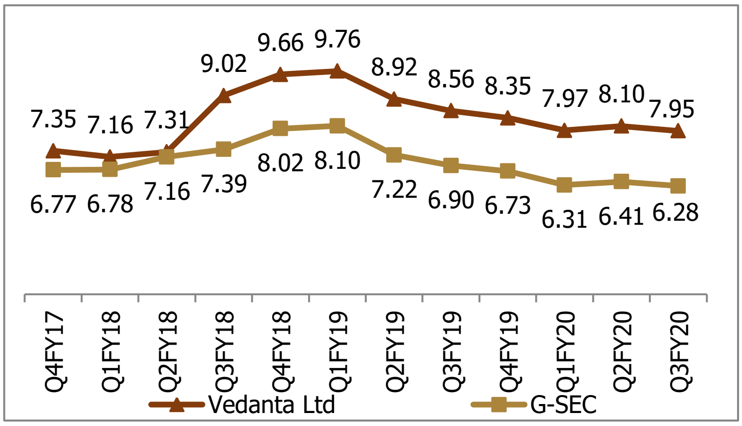
Company Board			
Name	**Designation**	**Name**	**Designation**
Mr. Navin Agarwal	Executive Chairman	Ms. Lalita Gupte	Non-Executive Independent Director
Mr. K. Venkataramanan	Non-Executive Independent Director	Mr. S. Venkatakrishnan	Whole-Time Director & CEO
Mr. U. K. Sinha	Non-Executive Independent Director	Ms. Arun Kumar GR	Whole-Time Director & CFO
Ms. Priya Agarwal	Non-Executive Director	Mr. Tarun Jain	Whole-Time Director

NCD & CP Issuances over 5 years



Source: NSDL, Prime Database

Credit spread over 10 Year G-Sec:



Source: Thomson Reuters

Latest Issuance:

Name	Type	Date	Tenor	Coupon (%)	Quantum (Rs. Bn)
Vedanta Limited	Secured	Dec, 9 2019	3 years	9.20 p.a.	7.50

Other Information:

Auditors	M/s. S R Batliboi & Co. LLP, Chartered Accountants

Financials: (Consolidated) as per IND-AS

Profit & Loss Statement

Particulars (in Bn)	FY17	FY18	FY19
INCOME :			
Gross Sales	761.71	929.23	920.48
Net Sales	**722.25**	**918.66**	**920.48**
EXPENDITURE :	**0.00**	**0.00**	**0.00**
Increase/Decrease in Stock	-12.28	4.50	0.72
Raw Material Consumed	231.09	318.02	260.78
Power & Fuel Cost	104.02	140.26	181.44
Employee Cost	23.39	24.96	30.23
Other Manufacturing Expenses	99.57	106.49	114.06
General and Administration Expenses	21.24	21.75	29.35
Selling and Distribution Expenses	0.00	0.97	0.25
Miscellaneous Expenses	41.91	53.09	72.95
Less: Expenses Capitalised	0.00	0.00	0.00
Total Expenditure	**508.94**	**670.04**	**689.78**
Operating Profit (Excl OI)	**213.31**	**248.62**	**230.70**
Other Income	45.82	32.05	40.51
Operating Profit	**259.13**	**280.67**	**271.21**
Interest	58.55	51.12	56.89
PBDT	**200.58**	**229.55**	**214.32**
Depreciation	62.92	62.83	81.92
Profit Before Taxation & Exceptional Items	**137.66**	**166.72**	**132.40**
Profit Before Tax	**136.52**	**195.69**	**135.60**
Provision for Tax	23.33	58.77	38.62
Profit After Tax	**113.19**	**136.92**	**96.98**

Key Ratios

Particulars	FY17	FY18	FY19
Operational & Financial Ratios			
Earnings Per Share (Rs)	18.70	27.80	18.99
DPS(Rs)	19.45	21.20	18.85
Book Value (Rs)	162.22	169.72	166.80
Margin Ratios			
PBIDTM (%)	34.02	30.20	29.46
PATM (%)	14.86	14.73	10.54
Performance Ratios			
ROA (%)	5.98	7.38	5.13
ROE (%)	21.69	22.18	15.49
ROCE (%)	16.00	19.47	15.40
Efficiency Ratios			
Receivable days	11.34	12.19	15.76
Inventory Days	42.26	42.41	49.89
Payable days	123.44	100.69	95.09
Growth Ratio			
Net Sales Growth(%)	12.39	27.19	0.20
Core EBITDA Growth(%)	32.24	8.31	-3.37
PAT Growth(%)	163.37	20.96	-29.17
Financial Stability Ratios			
Total Debt/Equity(x)	1.19	0.92	1.07
Current Ratio(x)	0.93	0.82	0.78
Quick Ratio(x)	0.81	0.64	0.61
Interest Coverage Ratio	3.33	4.83	3.38

Peer Comparison as on March 31, 2019

Particulars (in Bn)	Vedanta	Hindalco	RIL
Total Income	960.99	1320.06	5757.70
PAT	96.98	54.95	397.34
Equity	622.97	576.03	3871.10
Debt	662.26	524.15	2875.05
EBITDA margin (%)	29.46	12.74	14.86
ROE (%)	15.49	9.77	11.68
ROA (%)	5.13	3.68	4.39
Leverage (times)	1.07	0.91	0.74

Balance Sheet

Particulars (in Bn)	FY17	FY18	FY19
EQUITY AND LIABILITIES			
Share Capital	3.72	3.72	3.72
Shareholder's Funds	**605.00**	**633.12**	**622.97**
Long-Term Borrowings	302.55	267.89	347.21
Other Non-current liabilities	41.80	63.42	96.82
Total Non-Current Liabilities	**344.35**	**331.31**	**444.03**
Current Liabilities	**0.00**	**0.00**	**0.00**
Trade Payables	184.59	178.43	173.52
Other Current Liabilities	314.75	267.32	355.11
Short Term Borrowings	322.45	219.51	229.82
Short Term Provisions	4.96	7.21	7.96
Total Current Liabilities	**826.75**	**672.47**	**766.41**
Total Liabilities	**1915.38**	**1796.51**	**1985.68**
ASSETS			
Non-Current Assets			
Net Block	**767.56**	**802.79**	**963.97**
Capital Work in Progress	176.71	161.40	222.36
Other Fixed Assets	98.86	159.15	27.23
Non Current Investments	0.73	1.64	48.91
Long Term Loans & Advances	59.46	75.72	99.69
Other Non Current Assets	44.10	44.67	25.24
Total Non-Current Assets	**1147.42**	**1245.37**	**1387.40**
Current Assets - Loans&Advances	**0.00**	**0.00**	**0.00**
Currents Investments	468.89	285.36	281.74
Inventories	96.28	119.67	131.98
Sundry Debtors	22.40	39.69	39.82
Cash and Bank	141.23	52.16	83.69
Other Current Assets	7.70	11.09	8.93
Short Term Loans and Advances	31.46	43.17	52.12
Total Current Assets	**767.96**	**551.14**	**598.28**
Miscellaneous Expenses not written off	0.00	0.00	0.00
Total Assets	**1915.38**	**1796.51**	**1985.68**
Total Debt (Long Term Plus Short Term)	715.69	581.59	662.26

Cash flow Statement

Particulars (in Bn)	FY17	FY18	FY19
Profit Before Tax	136.52	195.69	135.60
Adjustment	78.38	57.70	106.79
Changes In working Capital	17.94	-47.75	21.28
Cash Flow after changes in Working Capital	**232.84**	**205.64**	**263.67**
Interest Paid	0.00	0.00	0.00
Tax Paid	-52.01	-31.98	-26.13
Other Direct Expenses paid	0.00	0.00	0.00
Extra & Other Item	0.00	0.00	0.00
Cash From Operating Activities	**180.83**	**173.66**	**237.54**
Cash Flow from Investing Activities	**27.11**	**153.96**	**-105.30**
Cash from Financing Activities	**-124.25**	**-392.55**	**-102.42**
Net Cash Inflow / Outflow	**83.69**	**-64.93**	**29.82**
Opening Cash & Cash Equivalents	**25.37**	**108.76**	**44.67**
Cash & Cash Equivalent on Amalgamation / Take over / Merger	0.00	0.00	0.00
Cash & Cash Equivalent of Subsidiaries under liquidations	0.00	0.00	0.00
Translation adj. on reserves / op cash balances frgn subsidiaries	0.00	0.00	0.00
Effect of Foreign Exchange Fluctuations	-0.30	0.84	-0.64
Closing Cash & Cash Equivalent	**108.76**	**44.67**	**73.85**

Information Source: Ace Equity, Company Reports, IBEF, NSDL, Prime Database, Bloomberg, Thomson Reuters, Rating Agencies, CRISIL